



Remarks For

The Hon. Steve Preston  
Administrator  
U.S. Small Business Administration

Delivered At The

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Thank you, Manjari, for that very nice introduction. I want to thank everyone at ICIC – President and CEO David Latimore, and, of course, Michael Porter – for the opportunity to speak with you this morning. In many ways, the ideas that underpin the Underserved Markets Initiative that I’m here today to discuss are built on the same premise as Michael Porter’s 1995 paper, “The Competitive Advantage of the Inner City”: that by identifying and exploiting competitive advantages, inner city businesses can and should be profitable and positioned to compete locally, regionally, nationally and even internationally. And in addition to that, we believe that in markets where small businesses do gain a foothold, where a vibrant small business economy exists, we will see opportunity brought to communities where it has been in short supply.

Two years ago ICIC completed a report commissioned by the SBA’s Office of Advocacy as a part of the “State of the Inner City Economies” project. The report looked specifically at the role small businesses play in inner city economies, and it documents the importance of small business to inner cities. Building on that report, other data we’ve gathered, and numerous roundtable discussions that we’ve had with community leaders across the country, we designed an agency-wide initiative to enable small businesses success more effectively in distressed communities. This is our Underserved Markets Initiative, and it focuses the delivery of our services in communities where we see high unemployment and poverty.

Small businesses are central to the strength of the U.S. economy, but their significance is magnified in inner cities. Small businesses account for around half of non-farm GDP and half of all private sector employees nationwide. In inner cities, small businesses employ around 80 percent of the private-sector workforce.

The old notion that a community's economic prospects depend on the ability to attract large enterprises is giving way to a better understanding of the role that small business and entrepreneurship play. Census bureau statistics show that from 1990 to 2003, almost 80 percent of net new jobs were created by firms with less than 20 employees. Less than 10 percent were attributed to large firms (with more than 500 employees). And when we look specifically at inner cities, small businesses added close to three times as many jobs as large companies between 1995 and 2002. Clearly, in inner city communities, as in other communities throughout the country, small businesses are essential to creating employment opportunities.

We can see that successful small businesses provide needed services, spur other economic activity, increase investment, and often the improve infrastructure in the local economy. All of these factors can help establish a sustainable economic base for the community, and that brings other benefits and engenders broader change.

I believe strongly in the power of entrepreneurship to transform communities in a real and lasting way. Successful small businesses precipitate change beyond immediate financial compensation: they can become the backbone of the community and the promise of opportunity for future generations. Moreover, successful entrepreneurs are an important element of the ownership society that President Bush has worked so hard to expand through greater home ownership as well as economic policies that support small businesses.

Entrepreneurship spurs community development...

- Entrepreneurs are agents of transformation...
- And the proliferation and growth of small businesses establishes that sustainable economic base...

And for all of these reasons, we have made focusing the delivery of SBA products and services in underserved markets such a high priority for the agency.

The potential to invigorate economic development in areas that need it most has encouraged us – and me personally – to engage the agency's resources more fully in enabling the success of inner city small businesses.

The SBA is committed to assisting any viable small business. But at the same time we recognize that more successful companies create more employment opportunities, lead to a larger economic benefit, and have a

greater influence in shaping communities. So, it's important to understand who the most successful firms are – and why they're successful. We also want to understand how we can be a more effective partner for them.

Our Office of Advocacy, which is an independent source of all kinds of great research on small businesses and small business related issues within the SBA, is currently updating statistics on firms that average 20 percent growth per year – the gazelles. These are firms that haven't been simply riding the tide of a particularly fast-growing industry or high-tech boom. Many are in the engineering or architectural fields, in construction, and even in manufacturing. These firms are driven more by hard work and entrepreneurial acumen.

As a way of accelerating the growth of companies that are poised for sustained growth, with the expert assistance of ICIC, SBA is creating a program to prepare 200 emerging companies across 10 different pilot cities for their next phase of growth. Entrepreneurs from the 200 companies will run through an intensive curriculum that will include technical assistance, mentorship, and access to capital. The focus will be on developing growth strategies and pursuing growth capital. Entrepreneurs will have the opportunity to be paired with mentors and to attend workshops and develop connections with banks and the private equity community.

ICIC is helping us design and implement this concept. We wanted to leverage their research on what industries and clusters are organic to particular cities, and what market advantages exist in those areas, so that we can help direct companies to capitalize on those advantages.

Because engaging the local network is critical, SBA District offices will be deeply involved assembling local partners, including state or local government, technical assistance partners, and capital providers.

By the end of the month we will have started the design and city selection process, and we anticipate the program will be in place starting early in the calendar year. At the same time, we will be looking to partner with others who can support the program as mentors, financiers, and sponsors - - so let us know if you would like to be a partner.

Not only will the SBA Emerging 200 program benefit the businesses through the support they will receive, as well as public recognition, but it will help us crystallize our understanding of who the businesses are, and how we can be a better partner for them, and others like them across the country.

In addition to the SBA Emerging 200, there are three other tracks to our underserved markets initiative: providing entrepreneurial literacy and

education; enabling access to both SBA-supported and other forms of capital; and assisting small businesses in procuring government contracts.

As we structure the underserved markets initiative, we are not simply looking to create new products and services. In fact, most of what we do is already well suited to these markets. We are also working to ensure that the delivery mechanism is reaching the right people. So in addition to adapting our products and services we are addressing how we are getting them into the market, and who we are partnering to with to do that – both on a national level and locally.

Our efforts in Washington are successful when our partners can tailor and deliver our products and services to their own communities. This is one reason that we are partnering with ICIC to help us design and implement our SBA 200 concept. In SCORE, Small Business Development Centers, Women's Business Centers, and many other relationships through our District Offices, we have valuable partners with strong ties to their communities.

To support our Underserved Markets Initiative, we're also entering into a strategic alliance with ICIC so that we can leverage their expertise in order to deliver our products and services to inner city communities. In addition to participating in this forum, we're looking at other innovative ways to support ICIC programs, such as Inner City Capital Connections.

Let me give you a bit more perspective on our programs.

Aspiring entrepreneurs need to be able to make an informed decision about whether they're ready to start a business. They need to know what skills they'll need and what challenges they will face. Moreover, they need the right plan for each stage of their business's development. This is all a part of entrepreneurial development, and it's something that SBA and our resource partners are helping entrepreneurs learn every day. Here in Philadelphia, for instance, more than 30,000 small businesses benefited from face-to-face technical assistance services in fiscal 2006 through one of our resource partners. Nationally, more than 1 million clients nationwide benefited from counseling and technical assistance through one of our resource partners during that time.

To a large extent, our ability to improve entrepreneurial development depends on our ability to develop the right partnerships in the right places to reach the areas with greatest unmet need and potential. We are in early stage talks with several national organizations to reach underserved segments, including youth populations. Earlier this month we announced an entrepreneurial literacy pilot with the Operation HOPE center in Harlem. Counselors from SBA's established resource partners in New York will work at the center on a rotating basis, providing one-on-one technical assistance and advice to aspiring entrepreneurs. We are looking



to expand this program to other Operation HOPE centers across the country early next year.

Even when entrepreneurs have the skills and the knowledge to succeed, their businesses still need capital to grow. SBA's loan guarantees enable lenders to extend their reach, often into underserved communities, helping small businesses get capital that they may not have access to in traditional markets. Our programs help entrepreneurs get access to that capital, whether they are in the start-up phase, need working capital to support exports, or longer term funds for equipment or real estate. These are funds that banks would be unlikely to lend without our guarantee.

Recently SBA provided our SBA's 2007 loan volume to ICIC to compare against its definitions of inner city. The analysis concluded that approximately 15 percent of the 7(a) and 504 loans (16,286 loans) were made to companies that fell in the Inner City. In addition, approximately 30 percent were made to companies in federally designated distressed zones, and that percentage increased last year due to agency-wide goals.

Last month I announced a lending initiative called Rural Lender Advantage that features a simplified and streamlined loan application process tailored to the needs of small lenders and community banks. After listening to input from the lending community, we designed a process that would allow us to partner more effectively with small lenders, which often

have and important role to play in the economic development of their communities. This allows us to better enable the private sector to extend credit in rural underserved markets. We will be looking to adapt this program for inner city lenders as well.

We are improving our Community Express loan, which is being redesigned to focus primarily on underserved markets. It has historically had the highest minority participation of any SBA lending product. Community Express provides a high guarantee level, and simplified process for the lender, and technical assistance for the borrower. Because it is a location-based program, we will focus the agency's financial and technical assistance on underserved communities.

Finally, every SBA office in the country has goals for increasing penetration of our lending products in underserved markets.

The final track of the initiative is to assist small business in underserved markets obtain federal contracts. In 2006, the federal government spent more than \$340 billion on procurement, and small businesses received almost \$80 billion in prime federal contracting obligations. Small business also received more than \$60 billion in subcontracts.

Getting government contracts to small businesses in inner cities is an important way to invigorate entrepreneurship. Last year the federal

government fell short of its goal to award 3 percent of federal procurement to small businesses in designated HUBZones, or Historically Underutilized Business Zones. To help the federal government meet its goal, we're expanding and improving our staff support, providing better tools to contracting officers to find HUBZone businesses to meet their needs, holding other agencies accountable for meeting this important goal.

In summary, the Underserved Markets Initiative is built on improving the effectiveness of our programs in entrepreneurial development, access to capital, and federal procurement through better processes, more effective outreach, and complementary partnerships. And with the launch of our "SBA Emerging 200" program, we will provide a more focused, intense level of support to emerging inner city businesses with a high potential for growth.

- This effort is about creating a strong economic foundation, which is an indispensable building block of a strong community.
- It's about unleashing the power of entrepreneurship.
- It's also about tapping into the broader power of ownership.
- As President Bush said,

*"...if you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country."*

This force is at work transforming communities across the country. It's a force for positive and lasting change, and it's a force that we're committed to enabling. With continued assistance from our lending partners, our training partners, and through alliances with organizations like ICIC, we can have a greater hand in enabling small business success in inner cities and underserved markets throughout the country.